FACT SHEET

The personal tax-transfer system

Section 7 of the 'Architecture of Australia's tax and transfer system' paper examines the way in which the personal tax and transfer systems interact to affect the disposable income of individuals and families, and their incentives to work, save and invest.

Key points

- The Australian tax and transfer systems are separate systems. There are different bases of assessment between and within the two systems, including the definition of income, the unit of assessment, the period of assessment and the basis of eligibility. These differences largely exist to achieve a targeted system, but a result is that the system as a whole is complex.
- The combination of the tax and transfer systems is progressive and redistributive. There are many families and individuals who receive transfers and pay tax in the same year and from one year to the next (see chart below). This 'churn' imposes costs on individuals as well as the administration of the system.
  - Successive tax cuts since 1985 mean taxpayers at all income levels pay less tax than if the tax thresholds had been indexed for inflation.
- Significant demographic change, including ageing of the population, will influence the affordability of the transfer system in the future. Participation and productivity increases may offset some of the impact of demographic change.

Transfers and taxes by level of income

Single income family, two children aged 3 and 8 (2008-09)